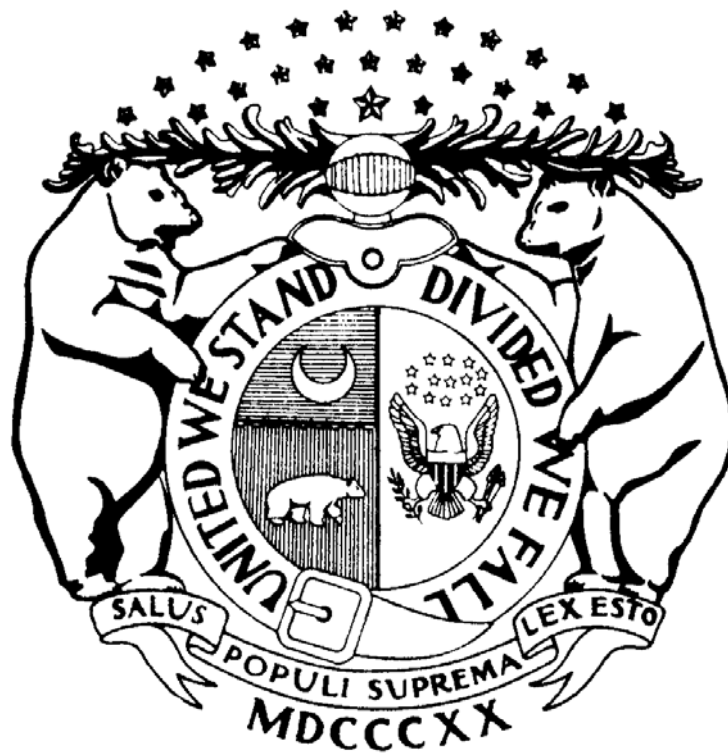


REPORT OF
ASSOCIATION FINANCIAL EXAMINATION

**AMERICAN NATIONAL GENERAL
INSURANCE COMPANY**

AS OF
DECEMBER 31, 2003



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	2
PERIOD COVERED.....	2
PROCEDURES.....	2
COMMENTS-PREVIOUS EXAMINATION	3
HISTORY	5
GENERAL.....	5
CAPITAL STOCK	5
DIVIDENDS	5
MANAGEMENT	5
CONFLICT OF INTEREST	7
CORPORATE RECORDS.....	7
ACQUISITIONS, MERGERS AND MAJOR CORPORATE EVENTS.....	7
SURPLUS DEBENTURES.....	7
AFFILIATED COMPANIES	7
HOLDING COMPANY, SUBSIDIARIES AND AFFILIATES	7
ORGANIZATIONAL CHART	8
INTERCOMPANY TRANSACTIONS	10
FIDELITY BOND AND OTHER INSURANCE.....	12
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	12
STATUTORY DEPOSITS	13
DEPOSITS WITH THE STATE OF MISSOURI	13
DEPOSITS WITH OTHER REGULATORY AGENCIES.....	13
INSURANCE PRODUCTS AND RELATED PRACTICES.....	14

TERRITORY AND PLAN OF OPERATIONS.....	14
POLICY FORMS & UNDERWRITING	15
ADVERTISING & SALES MATERIAL	15
TREATMENT OF POLICYHOLDERS	15
REINSURANCE.....	16
GENERAL.....	16
ASSUMED	16
CEDED.....	16
ACCOUNTS AND RECORDS.....	18
FINANCIAL STATEMENTS	20
ASSETS	21
LIABILITIES, SURPLUS AND OTHER FUNDS.....	22
STATEMENT OF INCOME	23
CAPITAL AND SURPLUS ACCOUNT.....	24
NOTES TO THE FINANCIAL STATEMENTS.....	24
EXAMINATION CHANGES.....	24
GENERAL COMMENTS AND/OR RECOMMENDATIONS	24
ACKNOWLEDGMENT.....	ERROR! BOOKMARK NOT DEFINED.
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Springfield, Missouri
December 29, 2004

Honorable Kevin M. McCarty, Commissioner
Office of Insurance Regulation
Florida Department of Insurance
Chairman, Financial Condition (E) Committee, NAIC

Honorable Jorge Gomez, Wisconsin, Commissioner
Office of the Commissioner of Insurance
State of Wisconsin
Secretary, Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Acting Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65102-0690

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

American National General Insurance Company

hereinafter referred to as such, as the "Company," or as "ANGIC." Its administrative office is located at 1949 East Sunshine, Springfield, Missouri, 65899, telephone number (417) 887-4990. This examination began on July 12, 2004, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of American National General Insurance Company was made as of December 31, 1999, and was conducted by examiners from the States of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zone participating.

The current full scope association financial examination covered the period from January 1, 2000, through December 31, 2003, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zone participating.

This examination was conducted concurrently with the examination of the Company's parent, American National Property and Casualty Company (ANPAC).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

The examiners reviewed the work of the Company's independent auditor, KPMG LLP, of Houston, Texas, for its audit covering the period from January 1, 2003, through December 31, 2003. Due to differences in approach and timing of the work of the

independent auditors, only minimal use was made of the work of the independent auditors.

Comments-Previous Examination

The comments, recommendations, and notes of the previous financial examination report dated as of December 31, 1999, are listed below with the subsequent response or action taken by the Company in regard to such comments, recommendations, and notes:

Intercompany Transactions

Comment: It was noted that ANGIC received cash management services from ANPAC without an agreement. The Company was directed to draft and execute an agreement for cash management services received from ANPAC and submit a Form D filing to the MDI in accordance with Section 382.195 RSMo (Transactions within a holding company system).

Company's Response: The Company agreed to enter into an agreement with ANPAC for cash management services and submit the agreement to the MDI in accordance with the applicable laws.

Current Findings: The agreement was properly filed with the MDI.

Fidelity Bond and Other Insurance

Comment: The Company did not have fidelity bond coverage. It was recommended that the Company obtain this coverage or an indemnification agreement from the ultimate controlling parent, American National Insurance Company (ANICO).

Company's Response: The Company, along with its ANPAC, has obtained fidelity bond coverage that satisfies the NAIC suggested minimum amount.

Current Findings: Additional problems were noted in this area. See the Fidelity Bond and Other Insurance section of this report for additional information.

Reinsurance

Comment: The examination noted that the insolvency clause in the property and catastrophe excess of loss agreement, the multi-line excess of loss agreement and the

quota share credit agreement did not comply with the applicable Missouri insurance regulation.

Company's Response: The agreements have been amended to comply with the insolvency clause requirement and the amendments have been with the MDI.

Current Findings: No additional problems were noted.

Accounts and Records

General

Comment: ANGIC was cited for violating a certain Missouri insurance regulation, which requires Missouri insurance companies to respond to examination requests in a timely manner.

Company's Response: ANGIC strongly disagreed with the comment. However, the Company did acknowledge the incompleteness in the data provided to the examiners regarding its CA\$HBACK program.

Current Findings: No material delays were experienced during the current examination.

CA\$HBACK Program

Comment: It was noted that the Company could not provide adequate supporting documentation for the reserve liability related to its CA\$HBACK program.

Company's Response: ANGIC strongly disagreed with the comment. However, the Company did acknowledge the incompleteness in the data provided to the examiners regarding its CA\$HBACK program.

Current Findings: See the Accounts and Records section of this report for detail documentation of additional problems encountered by this examination.

HISTORY

General

American National General Insurance Company was incorporated on December 30, 1980, and commenced business on April 1, 1981. The Company operates as a stock casualty company under the laws of Chapter 379 (Insurance other than life), Revised Statutes of Missouri (RSMo).

Capital Stock

As of December 31, 2003, the Company had authority to issue 50,000 shares of common stock with a par value of \$50 per share. There were 50,000 shares outstanding for a balance of \$2,500,000 in the capital account. All of the outstanding shares of ANGIC are owned by American National Property and Casualty Company, a Missouri domiciled insurance company.

Dividends

No dividends were paid during the examination period.

Management

As of December 31, 2003, nine directors were serving on the board as follows:

<u>Name</u>	<u>Address</u>	<u>Occupation and Business Affiliation</u>
Charles H. Addison	Galveston, TX	Senior Vice President – Systems Planning American National Insurance Company
Robert J. Campbell	Springfield, MO	Senior Vice President, General Counsel, Secretary and Chief Claims Officer ANPAC and ANGIC
G. Richard Ferdinandsten	Galveston, TX	President and Chief Operating Officer American National Insurance Company
Robert A. Fruend	St. Charles, MO	Executive Vice President – Special Markets American National Insurance Company

Irwin M. Herz, Jr.	Galveston, TX	Attorney Greer, Herz & Adams, LLP
Ross R. Moody	Austin, TX	President National Western Life Insurance Company
Gregory V. Ostergren	Springfield, MO	Chairman, President and Chief Executive ANPAC and ANGIC
Stephen E. Pavlicek	Galveston, TX	Senior Vice President and Controller American National Insurance Company
Ronald J. Welch	Galveston, TX	Senior Vice President and Chief Actuary American National Insurance Company

The Executive Committee members elected and serving as of December 31, 2003, were the following directors: G. Richard Ferdinandtsen, Robert A. Fruend, Ross R. Moody and Gregory V. Ostergren.

The Executive Management Committee members elected and serving as of December 31, 2003, were the following directors: G. Richard Ferdinandtsen and Gregory V. Ostergren.

The Finance Committee members elected and serving as of December 31, 2003, were the following individuals: S.F. Brast, D.D. Brichler, F.V. Broll, G.D. Dixon, G.R. Ferdinandtsen, Ann LeMire, M.W. McCroskey, W.L. Moody, IV, R.L. Moody, and J. Mark Flippin.

The officers elected and serving as of December 31, 2003, were as follows:

Gregory V. Ostergren	Chairman of the Board – President & CEO
G. Richard Ferdinandtsen	Vice Chairman of the Board
Robert J. Campbell	Senior Vice President, General Counsel, Secretary and Chief Claims Officer
James A. Cybulski	Controller/Treasurer
Byron W. Smith	Vice President – Actuarial Services

Conflict of Interest

The Company requires all directors and officers to complete conflict of interest disclosure statements annually. The statements were reviewed for the period under examination. No material conflicts were indicated.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. The minutes of the Company's board of directors and the shareholder's meetings were reviewed and appear to properly reflect and approve the corporate transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

None.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

American National General Insurance Company is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The Company is wholly owned by American National Property and Casualty Company (ANPAC), a Missouri stock casualty company, which in turn, is directly owned by American National Property and Casualty Holding Company, LLC (ANPAC Holding), a

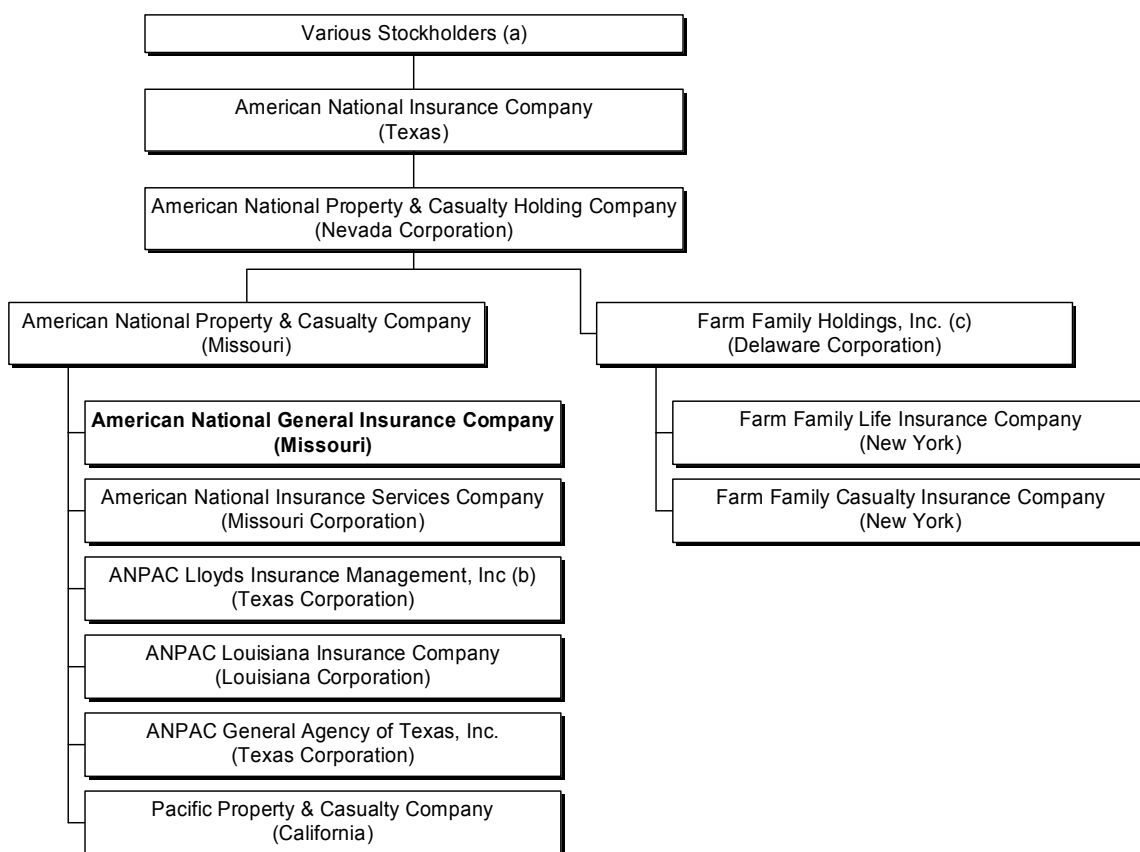
Nevada corporation, which is 94% owned by American National Insurance Company (ANICO), the ultimate parent of ANPAC. ANICO, a stock casualty company domiciled in Texas, is 23.69% owned by the Moody Foundation and 37.57% by the Libbie S. Moody Trust. The remaining stock ownership interest is publicly traded.

In addition to the Company, ANPAC also owns 100% equity interest in the following entities: American National Insurance Services Company (ANISCO), a Missouri corporation that brokers commercial lines; ANPAC Lloyd's Insurance Management, Inc. (ANLIM), a Texas corporation which serves as attorney-in-fact for American National Lloyd's Insurance Company (ANLIC); ANPAC Louisiana Insurance Company (ANPAC-Louisiana), a Louisiana property and casualty insurance company; Pacific Property and Casualty Company (Pacific Property), a California property and casualty insurance company; and ANPAC General Agency of Texas, Inc. (ANGAT).

Insurance Holding Company System Registration Statements have been filed by American National Property and Casualty Company with the State of Missouri on behalf of itself and its subsidiary, American National General Insurance Company, for the period under examination.

Organizational Chart

The following organizational chart partially depicts the ANGIC holding company system as of December 31, 2003.



- (a) Those stockholders owning 10% or more of the outstanding stock at December 31, 2003, are Libby S. Moody Trust (37.57%) and the Moody Foundation (23.69%).
- (b) ANPAC Lloyd's Insurance Management, Inc. is the attorney-in-fact for American National Lloyd's Insurance Company, domiciled in Texas.
- (c) Farm Family Holdings, Inc. is owned 94.3% by ANPAC Holding Company, LLC; 0.7% by Comprehensive Investment Services, Inc, a wholly owned subsidiary of ANICO; and 5.0% owned by TMNY Investments, LLC, which is 17.0% owned by ANICO, 17.0% owned by ANPAC, and 66.0% owned by employees of the holding company group. The above organizational chart reflects only the direct parent relationships, and all wholly owned subsidiaries of ANPAC.

Intercompany Transactions

American National General Insurance Company has the following agreements with its affiliated companies:

1. Type: Service Agreement
 Parties: ANPAC and ANGIC
 Effective: December 31, 1998
 Terms: ANPAC provides operational services and facilities for ANGIC, with costs being allocated on various measures, primarily cost per policy and cost per claim.
2. Type: Service Agreement
 Parties: ANICO and ANGIC, ANPAC, and various other affiliates
 Effective: December 31, 1991
 Terms: ANICO provides certain miscellaneous operational services for actual cost.
3. Type: Tax Sharing Agreement
 Parties: ANICO and ANGIC, ANPAC, and various other affiliates
 Effective: January 1, 1996
 Terms: Each member's tax expense is calculated separately on the tax rate of the affiliated group. Any net operating loss benefits are received on a "wait and see" method, which provides for the company to receive its tax benefit when it can absorb the loss on a separate-company-basis in a later year.
4. Type: Cash Management Agreement
 Parties: ANPAC and its subsidiaries including ANGIC
 Effective: January 1, 2002
 Terms: ANPAC provides certain cash management services to its subsidiaries, including the timely processing of each party's

premium payments in and for their respective insurance business. The services are to be provided on a cost basis.

5. Type: Service Agreement
- Parties: ANICO and various named affiliates, including ANGIC
- Effective: November 1, 2001
- Terms: ANICO is to provide certain operational services to named affiliates, and likewise, named affiliates may provide certain operational services to ANICO and other named affiliates. Reimbursement is to be on a cost or, where appropriate, fair market value basis. There was no activity under this agreement in regard to ANGIC during the examination period.
- Exception: This service agreement has not been filed with the Missouri Department of Insurance (MDI). The Company is directed to submit a Form D filing for this service agreement to the MDI in accordance with RSMo 382.195 (Transactions within a holding company system).

The amounts (paid) to and received from subsidiaries and affiliates pertaining to the above agreements for the years under examination were as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Service Agreement – ANPAC	(\$3,626,437)	(\$4,061,813)	(\$3,663,978)	(\$3,150,002)
Service Agreement – ANICO	(240,505)	(\$221,691)	(207,067)	(15,468)
Tax Sharing Agreement	(2,847,954)	1,349,495	783,607	(126,605)
Cash Management Agreement (a)	<u>(18,068)</u>	<u>(18,194)</u>	<u>(0)</u>	<u>(0)</u>
Net amount (paid) to affiliates	<u>(\$6,732,964)</u>	<u>(\$2,952,203)</u>	<u>(\$3,087,438)</u>	<u>(\$3,292,075)</u>

(a) Prior to the inception of the 2002 cash management agreement, any service fees related to the cash management arrangement were generally considered inclusive in the service agreements with ANPAC and respective affiliates.

ANGIC also participates with affiliates in various reinsurance agreements but neither assumes from, or cedes to, an affiliate.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond policy maintained by its ultimate parent, American National Insurance Company (ANICO). The aggregate limit of coverage is \$3 million, with a single loss limit and deductible of \$1.5 million and \$50,000, respectively. This level of coverage is less than the NAIC's suggested minimum fidelity bond coverage on a consolidated basis of \$4 million for all the named insureds. The Company is directed to increase the liability limit on the fidelity bond policy to a minimum of \$4 million.

The Company is also a named insured on other insurance policies maintained by ANICO. These policies include the following coverages: commercial general liability, excess liability, automobile liability, workers compensation and employer's liability, property replacement, and directors and officers liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

ANGIC has no employees as its parent, American National Property and Casualty Company (ANPAC), provides all operational services under a service agreement. A variety of standard benefits are provided and available to ANPAC employees which include, but are not limited to: medical and disability coverages; term life insurance; retirement and 401(k) savings plans; and executive incentive plans. Adequate provision appears to have been made in the Company's financial statements with regards to its obligations for these benefits.

STATUTORY DEPOSITS**Deposits with the State of Missouri**

The funds on deposit with the Missouri Department of Insurance as of December 31, 2003, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo (Securities Deposit). The Company's required deposit for Missouri is \$1,200,000. The funds on deposit as of December 31, 2003, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes	\$2,150,000	\$1,751,992	\$1,743,951

Deposits with Other States

The Company also had funds on deposit with various other states in which it is licensed. Those funds on deposit as of December 31, 2003, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Georgia	U.S. Treasury Bonds	\$40,000	\$40,152	\$40,000
Louisiana	U.S. Treasury Bonds	20,000	21,200	19,847
N. Mexico	U.S. Treasury Notes	350,000	352,079	349,492
Virginia	U.S. Treasury Bonds	<u>105,000</u>	<u>105,399</u>	<u>105,000</u>
Totals		<u>\$515,000</u>	<u>\$518,830</u>	<u>\$514,339</u>

INSURANCE PRODUCTS AND RELATED PRACTICES**Territory and Plan of Operations**

American National General Insurance Company is licensed as a multiple-line stock casualty company by the Missouri Department of Insurance under Chapter 379 RSMo (Insurance other than life) to write the business of property and casualty insurance in the State of Missouri. As of December 31, 2003, the Company was licensed to transact the business of insurance in 37 states.

The Company writes primarily standard private passenger automobile and preferred homeowners insurance. As of December 31, 2003, these two lines of business accounted for approximately 89% of the total direct written premiums. Major direct premium writings by state were (in millions): Alabama (\$6.0), Louisiana (\$6.0), Colorado (\$5.3), and Georgia (\$4.7).

Approximately 950 captive agents and general agents sell the Company's products. The Company is required under Section 375.147 through 153 RSMo (Managing General Agents statutes) and Missouri Regulation 20 CSR 200-10 (Managing General Agents regulations) to perform semi-annual, on-site review of Managing General Agents (MGA) operations. The Company could not provide any documented evidence of its compliance as required by these statutes. The Company is directed to perform its statutory functions with respect to its MGAs. Evidence of such compliance should be maintained for review during future examinations.

The Company entered into an MGA agreement with Standard Underwriters Network, Inc. effective January 1, 2002. This agreement was not filed with the MDI for review and approval as required under Missouri Regulation 20 CSR 200-10.200 – Filing

Requirements, until 2004. In addition, at the time of the agreement, Standard Underwriters Network, Inc. was not a licensed MGA by the state of Missouri as required by Section 375.149 RSMo (License Required; Surety Requirements). The Company was in violation of these applicable laws as of the examination date. The Company is directed to be cognizant of these laws in future MGA appointments.

The Company offers a program, referred to as CASHBACK, to its policyholders in a majority of the states in which ANGIC writes business. Under this program, the Company returns 25% of the premiums to the policyholder if for three years the insured is both claim-free and has continuous policies for both comprehensive automobile and homeowners. Other than for Wisconsin policyholders who are charged a \$35 enrollment fee to join the CASHBACK program, enrollment is free and automatic. Some accounting and reporting issues were noted during this examination about the CASHBACK program. See the Accounts and Records section of this report for more details.

Policy Forms & Underwriting

Advertising & Sales Material

Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff that performs a review of these issues and generates a separate market conduct report. The Company's current Missouri market conduct report was dated June 19, 2002, and was issued for the examination period from January 1, 2001, through December 31, 2001. No significant problems were noted in the market conduct report. A cursory review was also performed on the Company's complaint log for the examination period with no material problems indicated.

In addition, the states of California, Illinois, Kentucky and Nevada performed market conduct examinations of the Company at different times during the current financial examination period. In each of these examinations, minor errors were noted in the reports and were addressed by the Company. The errors did not have any bearing on the Company's financial position.

REINSURANCE

General

The Company's reinsurance and premium activity for the years ending December 31, 2003, 2002, 2001 and 2000, are detailed in the table below.

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Direct Business	\$61,543,983	\$70,398,186	\$52,234,057	\$39,477,631
Reinsurance Assumed				
Affiliates	0	0	0	0
Non-affiliates	0	0	0	0
Reinsurance Ceded:				
Affiliates	0	0	(2,038)	0
Non-affiliates	<u>(8,485,863)</u>	<u>(12,334,939)</u>	<u>(3,301,223)</u>	<u>(376,588)</u>
Net Premiums Written	<u>\$53,058,120</u>	<u>\$58,063,247</u>	<u>\$48,930,796</u>	<u>\$39,101,043</u>

Assumed

ANGIC does not assume any business.

Ceded

The Company participates with other affiliated companies (jointly referred to in this section as the "ANPAC-Group") in a property catastrophe excess of loss reinsurance agreement, multi-line and casualty clash excess of loss reinsurance agreement, which, together are placed with multiple reinsurers in multiple layers through an intermediary,

Benfield Blanch. The first multi-line layer provides \$500,000 coverage for all property and casualty risks, excluding credit property, aircraft and other specified exclusions, in excess of \$500,000 and in excess a \$5,000,000 annual aggregate retention. The second multi-line layer, covering similar risks, provides \$5,000,000 excess \$1,000,000 (\$4,000,000 property only). Casualty clash coverage for casualty perils, excluding aircraft and other specified exclusions, is also placed in two layers. The first casualty clash layer generally provides for \$5,000,000 excess of \$6,000,000; and the second layer coverage is \$10,000,000 excess of \$11,000,000.

Property catastrophe coverage for all property coverages excluding credit property, aircraft and other specified exclusions, was placed in five layers; and generally provided coverage up to a total of \$125,000,000 excess the first layer \$4,000,000 with a group participation rate of 2.5%.

Additionally, the Company also fronts two smaller blocks of business for ceding commissions and fees.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

Financial statements of the Company for the years ending December 31, 2003, 2002, 2001, and 2000 were audited by the CPA firm KPMG LLP of Houston, Texas. Loss reserves of the Company were reviewed and certified by John F. Butcher, FCAS, MAAA, of Tillinghast – Towers Perrin.

The following problems were noted during the review of the Company's CASHBACK program: (See the Territory and Plan of Operations section of this report for a summary description of the CASHBACK program).

1. The database housing the detail records of the program did not match the ledger records. The report was rerun several times by the Company's information technology department over a 4-6 week period before a complete database was obtained. The problems associated with the database casts reasonable doubt about the accuracy and credibility of the results originating from the database. The Company is directed to correct this problem without delay.
2. The Company did not implement the recommendation of the previous examination requiring an actuarial certification of the persistency ratios utilized to derive the CASHBACK liability. Given the significance of these ratios in calculating the liability reserves, the Company is again directed to have its appointed actuary review and attest to the adequacy and accuracy of these ratios.
3. The Company's CASHBACK program should be accounted for and reported pursuant to the guidelines in the NAIC's Statement of Statutory Accounting Principles (SSAP) #66 (Retrospectively Rated Premiums) to ensure adequate and accurate presentation of the reserve liability. This SSAP became effective as of January 1, 2001, and should be the authoritative basis for reporting the CASHBACK program. The Company is directed to implement the accounting and reporting guidance provided by SSAP #66 with respect to the CASHBACK program.
4. The Company improperly classified and included the underlying liability for the CASHBACK program with unearned premium liability in the Annual Statement. According to the NAIC's Annual Statement instructions, the Company should report this liability as part of Aggregate Write-Ins for Liabilities and separately identify it below the surplus line. The Company is directed to follow the Annual Statement Instructions in reporting the CASHBACK program liability.

The Company's custodial agreement with The Moody National Bank (Moody Bank) of Galveston, Texas dated November 19, 1997, that was in effect during the examination period was deficient relative to the requirements of the NAIC, as stipulated in the Financial Examiners Handbook. The agreement did not include a key provision requiring that the Missouri Department of Insurance must be notified within three days in the event of termination of the Agreement or the withdrawal of 100 percent of the assets under custody. The Company is directed to amend the custodial agreement to include this specific provision.

Moody Bank utilizes the services of SEI Trust (formerly known as Eagle Trust Company) in an agency relationship to provide various services for its custodial accounts. The Custody and Services Agreement between Moody Bank and SEI Trust did not include a provision that SEI Trust is subject to the same liability for loss of securities as Moody Bank. Part 1, Chapter IV, Section J, paragraph 2e of the NAIC's Financial Examiners Handbook requires that in the event that the custodian for an insurer gains entry to a clearing house through an agent, the agent must be subjected to the same liability for loss of securities as the custodian. To comply with this requirement the Company should compel Moody Bank to either revise its agreement with SEI Trust to state that SEI Trust is subject to the same liability for loss of securities as Moody Bank or SEI Trust may be added as a party to the Custody Agreement between Moody Bank and the Company, with the agreement specifically stating that SEI Trust has the same obligations as Moody Bank with respect to the securities in custody.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2003. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding such are made in the “Notes to the Financial Statements.” (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the “Notes to the Financial Statements”. These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore they were communicated to the Company and/or noted in the workpapers for each individual Annual Statement item.

Assets

	Ledger <u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$85,345,315		\$85,345,315
Common Stocks	1,491,161		1,491,161
Cash and Short-term Investments	(364,143)		(364,143)
Investment Income Due and Accrued	1,437,819		1,437,819
Premiums and Considerations:			
Deferred Premiums, Agents' Balances and Install. Booked but Deferred and not yet Due	7,690,768		7,690,768
Current Federal Income Tax Recoverable	1,362,654		1,362,654
Net Deferred Tax Asset	2,058,898	\$161,061	1,897,837
Guaranty Funds Receivable or on Deposit	237,469	5,389	232,080
Receivables from Parent, Subsidiaries and Affiliates	369,434		369,434
Aggregate Write-Ins for other than Invested Assets:			
Equities and Depsoits in Pools and Association	2,911		2,911
Other Assets	<u>74,671</u>	<u>74,671</u>	<u>0</u>
TOTAL ASSETS	<u>\$99,706,957</u>	<u>\$241,121</u>	<u>\$99,465,836</u>

Liabilities, Surplus and Other Funds

Losses	\$25,445,946
Loss Adjustment Expenses	5,571,355
Commissions Payable and Contingent Commissions	362,941
Other Expenses	5,884
Taxes, Licenses and Fees	418,700
Unearned Premiums	18,945,136
Amounts Withheld or Retained by Company for Account of Others	264,005
Remittances and Items Not Allocated	24,789
Payable to Parent, Subsidiaries and Affiliates	<u>111,722</u>
Total Liabilities	\$51,150,478
Common Capital Stock	2,500,000
Gross Paid in and Contributed Surplus	12,500,000
Unassigned Funds (Surplus)	<u>33,315,358</u>
Surplus as Regards Policyholders	<u>\$48,315,358</u>
Total Liabilities and Surplus	<u>\$99,465,836</u>

Statement of Income

Underwriting Income

Premiums Earned	\$ 53,454,075
Losses Incurred	40,548,378
Loss Expenses Incurred	5,443,900
Other Underwriting Expenses Incurred	8,284,030
Total Underwriting Deductions	<u>\$54,276,308</u>
Net Underwriting Gain/(Loss)	(\$822,233)

Investment Income

Net Investment Income Earned	4,948,028
Net Realized Capital Gains or (Losses)	<u>292,201</u>
Net Investment Gain or (Loss)	\$5,240,229

Other Income

Net Gain (Loss) from Agents' or Premium Balances Charged Off	(464,537)
Finance and Service Charges not Included in Premiums	109,397
Miscellaneous Other Income	<u>297,219</u>
Total Other Income	(\$57,921)
Net income before dividends to policyholders and federal income taxes	\$4,360,075
Federal and foreign income taxes incurred	<u>1,571,139</u>
Net Income	<u>\$2,788,936</u>

Capital and Surplus Account

Surplus as Regards Policyholders, December 31, 2002	\$45,393,481
Net Income	2,788,936
Change in Net Unrealized Capital Gains or (Losses)	39,865
Change in Nonadmitted Assets	14,723
Change in Net Deferred Income Tax	78,353
Examination Change	<u>0</u>
Net Change in Surplus as Regards Policyholders for the year	<u>\$2,921,877</u>
Surplus as Regards Policyholders, December 31, 2003	<u>\$48,315,358</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Intercompany Transactions (page 11)

The Company is party to a service agreement with ANICO, its ultimate parent, effective November 1, 2001, for various services. This agreement has not been filed with

the MDI as required by the Missouri holding company laws. This agreement should be filed with the MDI in accordance with Section 382.195 RSMo (Transactions within a holding company system).

Fidelity Bond and Other Insurance (page 12)

The liability limit of \$3 million on the fidelity bond coverage provided by the Company's ultimate parent is less than the NAIC's suggested minimum fidelity bond coverage for all the named insureds on the policy. The Company is directed to increase the liability limit on the fidelity bond policy to a minimum of \$4 million.

Territory and Plan of Operations (pages 14 through 15)

The Company could not provide documentation of the semi-annual reviews of its appointed MGAs as required by Section 375.147 through 153 RSMo (Managing General Agents statutes) and Missouri Regulation 20 CSR 200-10 (Managing General Agents regulations). The Company is directed to perform its statutory functions with respect to its MGAs. Evidence of such compliance should be maintained for review during future examinations.

The Company appointed Standard Underwriters Network, Inc. as an MGA without the necessary approvals required under Missouri Regulation 20 CSR 200-10.200 – Filing Requirements. In addition, at the time of the agreement, Standard Underwriters Network, Inc. was not a licensed MGA by the state of Missouri as required by Section 375.149 RSMo (License Required; Surety Requirements). The Company was in violation of these applicable laws as of the examination date. The Company is directed to be cognizant of these laws in future MGA appointments.

Accounts and Records (page 18)

The accuracy and adequacy of the reported liability for the Company's CA\$BACK program to qualified insureds is compromised by the following problems noted by the examination:

1. The underlying database did not match the summary reports underlying the Annual Statement amount. It required numerous runs of the Company's computer system by its informational system personnel to obtain a usable download.
2. Given the significance of the persistency ratios in calculating the liability reserves, the Company should have its appointed actuary review and attest to the adequacy of these ratios.
3. The accounting and reporting practice employed by the Company is not consistent with the guidance provided by SSAP #66, which covers transactions such as the CA\$BACK program.
4. The Company improperly included the liability for the CASHBACK program as part of the unearned premium liability on the Annual Statement. NAIC's Annual Statement Instructions requires that this liability be reported as part of Aggregate Write-Ins for Liabilities and separately identified below the surplus line on the Annual Statement.

The Company is directed to implement and/or correct the issues noted above without delay.

Custodial Agreements (page 19)

The custodial agreement with Moody Bank did not contain all the controls and safeguards required for such agreements as contained in the NAIC's Financial Examiners Handbook. The Company is directed to update its custodial agreement with Moody Bank to comply with the required standard.

The custodial agreement with Moody Bank should be amended to include the obligations of a third party agent (SEI Trust) under the agreement. Alternatively a new agreement between SEI Trust and Moody Bank should be consummated, specifically

documenting the relationship of the parties with ANGIC and their separate obligations to the Company with respect to the securities under custody.

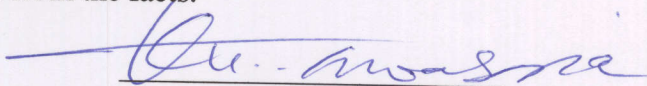
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of American National Property and Casualty Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Andy Balas, CFE, Shawn Hernandez, CFE, Bernie Troop, CFE, Shannon Schmoeger, CFE, and Karen Baldree, CPA, CFE, examiners for the Missouri Department of Insurance, participated in this examination. Taylor - Walker & Associates, Incorporated of Midvale, Utah performed the actuarial portion of this examination.

VERIFICATION

State of Missouri)
)
County of)

I, Levi N. Nwasoria, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Levi N. Nwasoria, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 31st day of January, 2005.

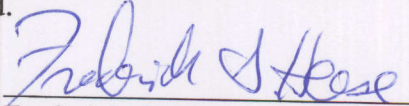
My commission expires:

Oct. 7, 2005 Rayna S. Rice
Notary Public

RAYNA S. RICE
Notary Public - State of Missouri
County of Cole
My Commission Expires Oct. 7, 2005

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance



March 16, 2005

Mr. James M. Cybulski
Vice President/Controller
American National General Insurance Company
American National Corporate Centre
1949 East Sunshine
Springfield, Missouri 65899

Mr. Kirk Schmidt, CFE, CPA
Chief Financial Examiner
State of Missouri
Department of Insurance
P.O. Box 690
Jefferson City, Missouri 65102-0690

Dear Mr. Schmidt:

In accordance with your letter of February 9, 2005, I am including responses to the General Comments and/or Recommendations contained on page 24 of your Examination Report. They are as follows:

Intercompany Transactions

The agreement with its ultimate parent, ANICO, has been completed and will be filed with the MDI in accordance with Section 382.195 RSMo (Transactions within a holding company system).

Fidelity Bond and Other Insurance

The Company will direct this matter to the ANGIC Board of Directors at the upcoming board meeting to be held April 29, 2005, for its consideration and will take the appropriate action based on the Board's decision.



Territory and Plan of Operation

In accordance with Section 375.147 through 153 RSMo (Managing General Agents Statutes) and Missouri Regulation 20 CSR 200-10 (Managing General Agents Regulations), the Company will perform its statutory functions with respect to its MGAs and will maintain evidence of such reviews. The Company will also insure that it is in compliance with Section 375.149 RSMo (License Required; Surety Requirements) in its appointment of MGAs in the future.

Accounts and Records

In regards to the reported liability for the Company's CASHBACK program, the following problems have been corrected:

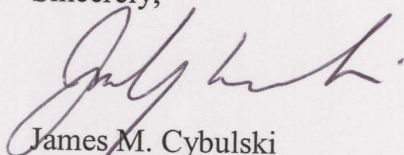
1. The computer program matching the detail reports to the summary programs has been corrected. The summary reports and the amounts reported were correct, it was the computer program that listed the underlying database that was incorrect.
2. Unearned premium for CASHBACK was recorded as a write-in item on the 2004 Annual Statement, Page 3, line 2301. In prior years it was included with the unearned premium on Page 3, line 9.

Custodial Agreements

The Company is currently working with Moody National Bank to amend its custodial agreement, specifically documenting the relationship between SEI Trust and Moody National Bank.

I trust you will find this satisfactory. If you have any questions please let me know.

Sincerely,



James M. Cybulski
Vice President/Controller